



Director of
Central
Intelligence

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OCPAS/CTG

CT# 285

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National Intelligence Daily

Tuesday
23 August 1983

~~Top Secret~~

CPAS NID 83-198JX

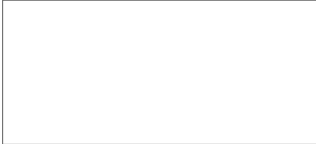
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FRANCE-CHAD-LIBYA: Paris Encourages Negotiations

France is pushing for a negotiated settlement in Chad, but it is concerned President Habre may launch attacks that could involve French forces.

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Comment: The French want to involve the ad hoc committee headed by Gabonese President Bongo in order to exclude the OAU's permanent Chad committee under Chairman Mengistu of Ethiopia. They believe Mengistu is pro-Libyan.

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Chadian factionalism will delay movement toward reconciliation. Libya will not negotiate in good faith as long as it has hopes that the French will pull out of Chad. Bongo is wary of getting mired in Chad's problems, and he is unlikely to be in any hurry to step in

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If low-level dissident activity in the southern and central areas of the country intensifies, Habre will be likely to put pressure on France and Zaire to help control the situation.

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USSR: Draft Space Treaty

Foreign Minister Gromyko late last week proposed a treaty banning antisatellite and space weapons that probably is intended to increase political pressure on the US to resume bilateral ASAT negotiations. [redacted]

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The draft was submitted to the UN Secretary General for inclusion on the agenda of the General Assembly session this fall. Article 1 would prohibit the "use or threat of force" with space objects and against space objects. Article 2 would oblige signatories not to test or develop new ASAT systems or to test or use manned spacecraft for military purposes. It also would eliminate existing and prohibit any future ASAT systems. [redacted]

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Comment: The draft treaty goes beyond previous Soviet proposals in prohibiting the use of space-based weapons against objects in the atmosphere and on Earth. For the first time, it would provide for a test ban and the elimination of ASAT systems and would prohibit the use of manned spacecraft for military purposes. [redacted]

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The proposal seems to include the USSR's existing orbital interceptor, its ground-based laser, and the US miniature homing vehicle. As was the case with General Secretary Andropov's announcement last week of a declaration of no first use of ASAT systems, it reflects the Soviets' apparent intention to delay future US technological advances in space-based systems. It also reflects Moscow's awareness of the limitations of its orbital interceptor.

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ROMANIA-USSR-US: Ceausescu's Initiative on INF

President Ceausescu probably acted unilaterally in proposing a compromise on INF in recent public letters to Soviet leader Andropov and President Reagan, but his proposal favors the USSR's position.

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The initiative calls for a postponement of NATO's INF deployments in return for a Soviet guarantee to freeze deployment of intermediate range missiles and reduce their number in the European USSR. If the two sides cannot agree, Ceausescu suggests that they "at least" not deploy in West Germany, East Germany, Czechoslovakia, and "other states" while negotiations are under way.

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Ceausescu will travel to Moscow for talks with Andropov early next month before meeting with Vice President Bush in Bucharest in mid-September. Foreign Minister Andrei told the West German Ambassador that the Romanians are uneasy about the meeting with Andropov.

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Comment: The proposal asks little new from the Soviets. Moscow has already declared a moratorium on SS-20 deployments in the European USSR and has offered to reduce the existing force there. Although the Soviets are now expanding their SS-20 force in the eastern USSR, they probably would consider a freeze on deployments there an acceptable price to pay to postpone NATO INF deployments.

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Ceausescu may intend his proposals to reinforce publicly—before meeting with Andropov—his stand in favor of negotiations and a generally conciliatory approach by the Warsaw Pact to INF. His opposition reportedly has been the major factor thwarting Soviet efforts to develop a tough reaction by the Warsaw Pact. He probably fears that Western INF deployments will cause the Soviets to put additional pressure on Bucharest to cooperate more within the Pact.

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The President also may be trying to increase his importance to the US as an independent voice in international affairs before his meeting with the Vice President. His initiative coincides with a substantial increase in his diplomatic activity.

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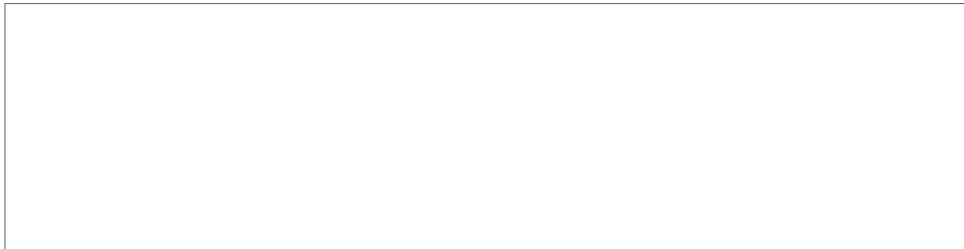
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PANAMA: Growing Support for US Policies

New National Guard Commander Noriega apparently is advocating increased Panamanian support for US policies in Central America. [redacted]

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The US Embassy says Foreign Minister Amado also is taking a harder line on regional issues, especially toward Nicaragua. Amado recently told US officials that full democracy in the region, including free elections in Nicaragua, is unlikely as long as the Sandinistas hold power. [redacted]

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In addition, Amado expressed confidence that the Contadora group—Panama, Colombia, Venezuela, and Mexico—could produce a general statement of principles acceptable to the five Central American states. He added, however, that full agreement on details seems unlikely and that, if the Contadora effort appears headed for failure, Panama might consider asking the OAS to take the initiative. [redacted]

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Comment: [redacted]

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Amado's tougher stand against Nicaragua may reflect increased involvement in foreign policy decisions by the National Guard. It probably views a closer alignment with the US as in its best interests at this time. [redacted]

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SAUDI ARABIA: Spending Cuts

Saudi Arabia's public announcement last week that government spending is lagging behind budgeted levels probably is intended to prepare businessmen for the possibility of more austerity. []

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Finance Minister Aba al-Khayl says government expenditures of \$20 billion for the first four months of the fiscal year, which began last April, were behind the budget plan. He also notes that the spending rate is below that for 1982, when total spending reached \$71 billion.

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At the time the budget was presented, King Fahd tried to reassure the population that falling oil revenues would impose no hardships on the private sector. Since then, however, Riyadh has delayed payments to both foreign and Saudi contractors and has declared a moratorium on new contracts. []

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The business community, which relies heavily on government outlays, is criticizing the regime for failing to meet its commitments. To cushion the impact of the spending slowdown on the business sector, the government recently issued a decree requiring foreign companies to subcontract 30 percent of their contracts to Saudi firms. []

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Comment: The budget still will be in deficit this fiscal year, by an estimated \$8 billion, even in the likely event oil sales pick up later in the year. To cope with the shortage, Riyadh has been delaying payments and drawing on reserves. []

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Aba al-Khayl's announcement alerts the private sector that the government is serious about fiscal discipline, but cash-short Saudi businessmen are unlikely to be mollified. As oil revenues continue gradually to increase later this year, the private sector and key ministries will urge the government to raise spending to budgeted levels. []

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ISRAEL: New Austerity Program

The budget cuts approved by the cabinet will have little economic impact, but they may cause one of the parties in Prime Minister Begin's coalition to resign.

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The cabinet on Sunday approved, in principle, spending reductions of 3 percent in real terms. According to a cabinet report, however, it still has to decide which ministries will absorb some of the cuts.

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The press states that almost half of the \$500 million in expenditure reductions will come from the defense budget, mainly manpower and construction in the Negev. In addition, the purchase tax on luxury goods will be increased by 10 percent, the travel tax will be doubled to \$100, and a new tax on educational allowances for large families will be imposed.

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The TAMI Party, with three Knesset members, has reacted to the proposed reductions by threatening to leave the government. The party believes the budget cuts come down too hard on its less affluent Sephardic constituency.

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Comment: Budget cuts are seldom realized, because ministers are adept at using "unanticipated" price hikes to justify actual outlays. Even if the cuts are made, the impact on the economy is likely to be minimal because real wage gains are increasing private consumption. The outcome of the recent doctors' strike, which is now in arbitration, probably will result in heavy pressure for large wage increases in other sectors.

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The departure of TAMI from the government would reduce Begin's majority to a single seat in the 120-member Knesset. That would increase the influence in the coalition of the ultraorthodox Agudat Israel and militantly nationalist Tehiya Parties.

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PHILIPPINES: Reaction to Aquino's Assassination

Manila was generally quiet yesterday, despite widespread rumors of riots and demonstrations. Military forces quickly dispersed an antigovernment student demonstration at a Manila university. The cabinet met in emergency session, but no public announcement was made after the meeting. [redacted]

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Opposition party leaders, including some who did not admire Aquino, believe that senior government officials were directly involved in Aquino's assassination. [redacted]

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Opposition leaders are meeting to determine whether they will participate in the legislative elections next May. They will have an opportunity to take a unified position on the assassination when the Aquino family arrives for the funeral. [redacted]

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EL SALVADOR: Pessimism on Peace Talks

The US Embassy reports that President Magana doubts that much will come of talks requested by the insurgents, because he believes they are stalling for time, perhaps to recover from recent military setbacks. Nonetheless, Magana told Embassy officials last week that he had given approval for negotiations and that a meeting would occur soon. [redacted]

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Comment: The initial negotiating positions of the two sides are far apart, and each will be cautious about concessions that could anger hardliners. The guerrillas' apparent decision to hold parallel peace talks with both the US and the Salvadoran Governments may be an effort to widen differences between them. [redacted]

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GUATEMALA: Human Rights Abuses

Indian villagers have complained to the US Embassy that civilian defense forces are forcing them to assist in torturing and killing alleged subversives. One patrol leader is said to have ordered 46 people killed in his area. Trade union officials and Christian Democratic Party officials also claim that the civilian patrols are blocking their organizational activities in rural areas. [REDACTED]

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Comment: Reports of human rights abuses by the civilian defense forces have been infrequent, but the potential for more problems is high. Many of the patrols operate in remote areas with little supervision from the military, and patrol leaders and members are poorly trained. Violence may intensify once political activity by rural peasant unions and political parties gets under way for constituent assembly elections next year. Some civilian defense leaders consider the unions subversive, and they have warned members not to join peasant unions. [REDACTED]

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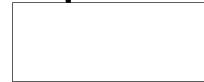
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MAURITIUS: Prime Minister's Coalition Wins Election

The three-party alliance headed by leftist Prime Minister Jugnauth soundly defeated the Mauritian Militant Movement of former Finance Minister Berenger on Sunday, taking approximately two-thirds of the seats in the Legislative Assembly. Berenger lost his assembly seat in a close contest, but he is expected to be seated under the country's "best loser" system. He has appealed to the public to support the election results. 

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Comment: The size of the alliance's victory will mitigate somewhat the threat that ideological differences and the conflicting ambitions of the alliance's leaders pose to Jugnauth's efforts to form an effective regime. He will still be dependent on former Prime Minister Ramgoolam's moderate Labor Party to form a government, but he will not have to solicit the support of the coalition's rightwing partner. 

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